

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

SECURITIES AND EXCHANGE)	
COMMISSION)	
	Plaintiff) Case No. 09-CV-1775
)
v.)	Judge William J. Hibbler
)
THE NUTMEG GROUP, LLC,)	Magistrate Judge Ashman
RANDALL GOULDING,)	
DAVID GOULDING,)	
	Defendants,)
)
DAVID GOULDING, INC.,)	
DAVID SAMUEL, LLC,)	
FINANCIAL ALCHEMY, LLC,)	
PHILLY FINANCIAL, LLC,)	
SAM WAYNE, and ERIC IRRANG,)	
Relief Defendants.)	

Report to Leslie Weiss, as Court-Appointed Receiver for the Defendant

Dated October 20, 2010

In this Report, Crowe Horwath LLP ("Crowe" or "we" or "our") provide to you, as court-appointed Receiver of Defendant, our findings related to Nutmeg/Mercury Fund, LLLP ("Nutmeg/Mercury Fund").

A. Background

Pursuant to the *Confidential Private Placement Memorandum up to \$5,000,000.00 in Limited Liability Limited Partnership Units of Nutmeg/Mercury Fund, LLLP* dated January 4, 2007 ("The January Offering", refer to Exhibit 1), Nutmeg/Mercury Fund was established in January 2007 to accept up to \$5.5 million in investor contributions. The Nutmeg Group, LLC ("Nutmeg") was the General Partner and investment advisor for Nutmeg/Mercury Fund. On January 24, 2007, a checking account (National City Bank account #984509706) was opened in the name of Nutmeg/Mercury Fund, LLLP. Subsequently, a number of brokerage accounts were also established in the name of Nutmeg/Mercury Fund.

Based on Nutmeg's records, \$5.5 million of investor contributions were raised by July 31, 2007. Total initial contributions included investor cash contributions of \$5,067,831.75, contributions from undistributed proceeds (or "rollover proceeds") from a previous Fund or Funds in the amount of \$378,406.00, and a contribution of \$53,762.25 due from Randall Goulding who was one of the Limited Partners of Nutmeg/Mercury Fund.

A second offering dated August 2, 2007 ("August Offering") was made by Nutmeg to seek an investor vote for changing the fund structure to a "perpetual fund" and to increase Nutmeg/Mercury Fund's investment limit to \$7.5 million. In the form of a perpetual fund, Nutmeg may determine at its sole discretion, whether to reinvest investment sales proceeds or distribute proceeds to investors. Refer to **Exhibit 2** for a copy of the *August 2, 2007 Disclosure Memorandum* and an *Amendment Letter* dated August 3, 2007 issued by Nutmeg to Nutmeg/Mercury Fund investors. In the *Amendment Letter*, Nutmeg sought votes from Nutmeg/Mercury Fund investors to change Nutmeg/Mercury Fund to a perpetual fund. The change would have to be approved with a 50 percent or more favorable vote. As of the date of this report, Nutmeg has not provided documentation of investors' votes to evidence investors' approval of the change.

After July 31, 2007, Nutmeg/Mercury Fund continued to receive investor cash contributions and contributions of rollover proceeds from previous Funds and by the end of 2008, Nutmeg/Mercury Funds' total capital contributions reached \$6,158,031.53. Based on the Investment Summary Schedule provided by Nutmeg (refer to **Exhibit 3**), as of March 31, 2009, the total investments paid by or for the benefit of Nutmeg/Mercury Fund was \$6,778,013.85, with total realized proceeds of \$3,567,319.24 and a value of remaining investment, as determined by Nutmeg, of \$5,401,390.16.

Although a separate bank account and separate brokerage accounts were set up for Nutmeg/Mercury Fund, during our analysis of Nutmeg/Mercury Fund's activity, we found commingling of Nutmeg/Mercury Fund investor contributions in Nutmeg's bank account. In addition, numerous funds transfers were made between the bank accounts of Nutmeg/Mercury Fund and Nutmeg. Therefore, it was critical to determine the uses of cash contributions from

investors of Nutmeg/Mercury Fund. In this Report, we will discuss the findings based on the analysis performed.

B. Information Considered

Exhibit 4 contains a list of information we considered in performing our work. The list includes, but is not limited to, available bank and brokerage statements, along with available transaction images, for accounts held in the names of Nutmeg, the Funds, Randall Goulding, and the Relief Defendants. In addition, we utilized available Funds' offering documents, partnership agreements, and copies of letters from Nutmeg to Funds' investors.

To the extent possible, we relied upon documents generated by third party sources; however, the availability of such information was limited. We noted that support for certain banking transactions was not included in the bank productions and statements for a number of brokerage accounts were not available. To supplement information provided by third party sources, we also utilized a number of spreadsheets and General Ledger files provided by Nutmeg.

C. Procedures Performed

To determine the uses of Nutmeg/Mercury Fund investors' contributions, we performed the following procedures:

- Validated Nutmeg/Mercury Fund investor cash contributions and distributions reflected in the investor statements and investor schedule provided by Nutmeg by tracing cash contributions and distributions to the bank accounts of Nutmeg/Mercury Fund and Nutmeg;

- Verified payments of investments recorded in Nutmeg/Mercury's General Ledger against disbursements from the bank accounts of Nutmeg/Mercury Fund and Nutmeg and, to the extend possible, agreed funding amounts to the available investment contracts;
- Analyzed investments allocated or assigned by Nutmeg to Nutmeg/Mercury Fund;
- Identified and traced investment sales proceeds and loan repayments in the brokerage and bank accounts of Nutmeg/Mercury Fund, Nutmeg, and the Relief Defendants;
- Analyzed transactions recorded in Nutmeg/Mercury Fund General Ledger account – Due to/from Nutmeg (an account used by Nutmeg to recorded related party transactions among Nutmeg/Mercury, Nutmeg, Relief Defendants, and other Funds);
- Reviewed management fees and carried interest calculated by Nutmeg and assessed the reasonableness of fees charged based on the best available information.

D. Summary of Findings

Nutmeg/Mercury Fund's investors made contributions totaling \$6,158,031.53 to the Fund. However, only \$4,483,065.00 of the cash contributions and \$19,663.87 of the rollover proceeds were actually deposited in Nutmeg/Mercury Fund's bank account. Cash contributions totaling \$879,259.00 were deposited in Nutmeg's and related parties' bank accounts. Further, rollover proceeds totaling \$722,281.41 should have been contributed in cash by Nutmeg to Nutmeg/Mercury Fund but never were and Randall Goulding's share in the amount of \$53,762.25 was never paid in cash to Nutmeg/Mercury Fund. In addition, from January 2007 to May 2009, net cash in the amount of \$320,708.90 was transferred from Nutmeg/Mercury Fund to Nutmeg. The reasons for transfers were not supported or explained by Nutmeg. A significant amount of Nutmeg/Mercury Fund's cash was commingled with Nutmeg's and other Funds' cash in the bank account of Nutmeg.

To segregate Nutmeg/Mercury Fund's cash from that of Nutmeg's and other Funds' cash, we prepared a schedule of Nutmeg/Mercury Fund's activity including Nutmeg/Mercury Fund's investor contributions, investment funding, realized proceeds, investors' cash distributions, and cash used by Fund expenses. Nutmeg/Mercury Fund's activity is summarized in Table 1, Section E - 1.1 of this Report. Based on our analysis, by May 2009, Nutmeg/Mercury Fund should have had cash in the amount of approximately \$2.1 million before the costs of investments allocated and assigned by Nutmeg and payment of Nutmeg's fees.

Nutmeg/Mercury Fund's actual cash balance as of May 29, 2009 was -\$6.73. Nutmeg attempted to account for the cash owed to Nutmeg/Mercury Fund through allocation or assignment of investments at a total cost of \$1,067,471.12 to Nutmeg/Mercury Fund. None of the investments allocated or assigned by Nutmeg appeared to have made a profit as of March 31, 2009. We determined that investments assigned by Nutmeg totaling \$160,036.12 should not have been allocated to Nutmeg/Mercury Fund, because there is no support to evidence that they were made for the benefit of Nutmeg/Mercury Fund. It is unlikely that Nutmeg/Mercury Fund can recover the cost of these investments.

In addition, Nutmeg charged Nutmeg/Mercury Fund management fees and incentive fees totaling \$1,112,033.13. The fees were calculated to a large extent based on the Fund's asset value determined by Nutmeg. Crowe's valuation of seven of Nutmeg/Mercury Fund's investments as of March 31, 2009 shows that Nutmeg significantly overstated the value of the Fund's assets. Nutmeg's valuation does not appear to be supportable and therefore cannot be used as a basis for fee calculations. As such, based on the terms of management fees in Nutmeg/Mercury Fund's January Offering, we recalculated Nutmeg's management fees by applying the 4% fee to the total amount of capital contributions.

To determine the reasonableness of Nutmeg's incentive fees of \$743,031.42, we compared Nutmeg/Mercury Fund's realized proceeds and estimated value of assets as of March 31, 2009 with the total cost of investments paid. The comparison shows that Nutmeg/Mercury Fund suffered a net loss of \$918,841 as of March 31, 2009. The incentive fees would have further increased Nutmeg/Mercury Fund's net loss to approximately \$1.6 million.

Based on our calculation (presented in Table 9, Section E-3), Nutmeg owed Nutmeg/Mercury Fund an amount of \$972,520.50 as of May 2009. This amount is composed of the cost of investments assigned by Randall Goulding to Nutmeg/Mercury Fund and the management fees and incentive fees paid to Nutmeg in excess of 4% of the total Nutmeg/Mercury Fund's capital. This amount does not include interest which may have been earned had the cash been deposited in Nutmeg/Mercury Fund's bank account. After deducting Nutmeg/Mercury Fund's realized proceeds allocable to Randall Goulding, the amount due from Nutmeg to other investors of Nutmeg/Mercury Fund is \$940,340.06.

E. Detailed Findings

1. Summary analysis schedules

1.1 Nutmeg/Mercury Fund's Activity

Because of the commingling of cash and significant related party transactions, cash in Nutmeg/Mercury Fund's bank and brokerage accounts did not represent its true cash balance. To show its true cash activity, Table 1 below provides the key components of Nutmeg/Mercury Fund's activity from January 1, 2007 to May 29, 2009. Refer to Exhibit 5 for a more detailed schedule.

- Total capital contributions that Nutmeg/Mercury Fund should have received;
- The amount of investment payments made by Nutmeg/Mercury Fund or by Nutmeg on behalf of Nutmeg/Mercury Fund;
- Total realized proceeds and repayments from Nutmeg/Mercury Fund investments;
- The actual cash distributions made to Fund investors;
- The amount of investments allocated or assigned by Nutmeg/Mercury Fund by Nutmeg; and
- Fees charged by Nutmeg to Nutmeg/Mercury Fund.

Two key balances are presented in Table 1: 1) Nutmeg/Mercury Fund's cash balance (\$2,126,276.76) before allocated or assigned investment costs and Nutmeg's fee charges, and 2) the cash balance (\$1,058,805.64) before Nutmeg's fee charges. The allocated or assigned investments were investments previously paid by Nutmeg and the Relief Defendants but were not attributed to any Fund. These investments were previously recorded in Nutmeg's books as Nutmeg's investments or Randall Goulding's personal investments. The purpose of Nutmeg's allocation or assignment of these investments, totaling \$1,067,471.12, to Nutmeg/Mercury Fund was to account for cash owed by Nutmeg to Nutmeg/Mercury Fund. Even after attributing these investments to Nutmeg/Mercury Fund, the Fund's cash balance should have been approximately \$1 million before paying Nutmeg's fees. Nutmeg/Mercury Fund's bank account had an overdraft balance of \$25.00 as of May 29, 2009 and the total cash balance (in bank and brokerage accounts) amounted to a deficit balance of -\$6.73. Nutmeg accounted for the \$1 million with the fees charged to Nutmeg/Mercury Fund. From July 2007 to March 2009,

Nutmeg recorded management fees totaling \$369,001.71 and incentive fees (carried interest) of \$743,031.42, resulting in total fees charged in excess of \$1.1 million.

The allocated or assigned investments and Nutmeg's fees are discussed in the detail later in this Report.

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Table 1 Summary of Nutmeg/Mercury Fund Activity

		Transaction Amount
Investor contributions		\$ 6,158,031.53
Investment payments		<u>\$ (5,687,617.11)</u>
Total contributions less investment funding	[1]	<u>\$ 470,414.42</u>
Proceeds and loan repayments		\$ 3,572,944.31
Investor cash distributions		<u>\$ (1,906,006.74)</u>
Undistributed proceeds	[2]	<u>\$ 1,666,937.57</u>
Interest and dividends		\$ 27,171.71
Fund expenses (excluding Nutmeg's fees)		<u>\$ (38,246.94)</u>
Operating income less expenses	[3]	<u>\$ (11,075.23)</u>
Nutmeg/Mercury Cash before allocated investments and Nutmeg's fees	[4]=[1]+[2]+[3]	<u>\$ 2,126,276.76</u>
Investments allocated to Nutmeg/Mercury		
1) Accesskey IP, Inc.		\$ (750,400.00)
2) Physicians Healthcare Management Group, Inc.		<u>\$ (157,035.00)</u>
Total allocated investments	[5]	<u>\$ (907,435.00)</u>
Investments assigned to Nutmeg/Mercury		
1) Spooz, Inc.		\$ (18,200.00)
2) Nutmeg/Tropical, LP		<u>\$ (141,836.12)</u>
Total assigned investments	[6]	<u>\$ (160,036.12)</u>
Total allocated or assigned investments	[7]=[5]+[6]	<u>\$ (1,067,471.12)</u>
Nutmeg/Mercury Cash before Nutmeg's fees	[8]=[4]+[7]	<u>\$ 1,058,805.64</u>
Nutmeg/Mercury's Actual cash balance (May 29, 2009)	[9]	\$ (6.73)
Difference between Cash before Nutmeg's fees and actual cash	[10]=[8]-[9]	<u>\$ 1,058,812.37</u>
Nutmeg's fees to Nutmeg/Mercury (recorded by Nutmeg)	[11]	<u>\$ 1,112,033.13</u>
Nutmeg/Mercury Cash if Nutmeg's fees were paid in full	[12]=[8]-[11]	<u>\$ (53,227.49)</u>

1.2 Due to/from Nutmeg

Based on our analysis Nutmeg/Mercury Fund's activity as shown in Table 1 above, Nutmeg/Mercury Fund's cash balance before payment of Nutmeg's fees should have been \$1,058,805.64, while the actual cash balance in bank and brokerage accounts was near zero. This means that before payment of Nutmeg's fees, Nutmeg owed Nutmeg/Mercury Fund approximately \$1 million. To prove this balance, we reviewed the related party transactions between Nutmeg/Mercury Fund, Nutmeg, and other related parties recorded in Nutmeg/Mercury Funds' General Ledger account - Due to/from Nutmeg.

The related party transactions include:

- Investor cash contributions and rollover contributions due from Nutmeg and Randall Goulding;
- Realized investment proceeds and loan repayments deposited in Nutmeg's bank and brokerage accounts which should have been returned to Nutmeg/Mercury Fund;
- Payments made by Nutmeg/Mercury Fund for Nutmeg and other Funds;
- Investment sales proceeds realized in Nutmeg/Mercury Fund's brokerage accounts which were attributed to other Funds by Nutmeg;
- Net cash transferred from Nutmeg/Mercury Fund to Nutmeg;
- Payments of investments made by Nutmeg on behalf of Nutmeg/Mercury Fund;
- Costs of investments allocated or assigned to Nutmeg/Mercury Fund by Nutmeg;
- Investor cash distributions made by Nutmeg on behalf of Nutmeg/Mercury.

Table 2 below summarizes the known related party transactions. The calculation resulted in an amount owed by Nutmeg to Nutmeg/Mercury Fund of \$1,042,574.32 before payment of fees.

This amount approximates the calculated Nutmeg/Mercury Fund's cash balance before payment of fees as presented in Table 1. Refer to **Exhibit 6** for a detailed schedule.

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Table 2 Summary of Due to/from Nutmeg Activity

	Transaction Amount
Nutmeg/Mercury investor cash contributions due from Nutmeg	\$ 879,259.00
Other Fund's investor cash contribution deposited in Nutmeg/Mercury's account	\$ (5,000.00)
Total investor rollover contributions	<u>\$ 741,945.28</u>
Total contributions due from Nutmeg	<u>\$ 1,616,204.28</u>
Capital contribution due from Randall Goulding	\$ 53,762.25
Total contributions due from Nutmeg and Randall Goulding	[1] <u>\$ 1,669,966.53</u>
Accesskey IP, Inc. repayments assigned or allocated to Nutmeg/Mercury	\$ 584,429.90
Other proceeds and loan repayments due from Nutmeg	<u>\$ 583,874.65</u>
Total proceeds due from Nutmeg	[2] <u>\$ 1,168,304.55</u>
Payment of investment by Nutmeg/Mercury for another Fund and other payments made for Nutmeg	\$ 294,829.63
Sales proceeds in Nutmeg/Mercury brokerage account for another Fund	<u>\$ (268,237.12)</u>
Total transactions for another Fund(s)	[3] <u>\$ 26,592.51</u>
Net cash transferred from Mercury to Nutmeg and other Funds	[4] \$ 306,088.32
Total additions to amount due to Nutmeg/Mercury from Nutmeg	[5]=sum of [1]-[4] <u>\$ 3,170,951.91</u>
Investments paid from Nutmeg's bank or brokerage account	\$ (578,037.74)
Accesskey IP, Inc. - Additional costs allocated to Nutmeg/Mercury	<u>\$ (750,400.00)</u>
PhyHealth payments - amount paid by Nutmeg/Mercury over amount allocated to Nutmeg/Mercury	\$ 14,000.00
Investments paid or assigned by Randall Goulding for/to Nutmeg/Mercury	<u>\$ (161,536.12)</u>
Other	<u>\$ (230.17)</u>
Total payment of investments on behalf or assigned to Nutmeg/Mercury [6]	<u>\$ (1,476,204.03)</u>
Distributions made by Nutmeg on behalf of Mercury	[7] \$ (652,173.56)
Total reduction to amount due to Nutmeg/Mercury from Nutmeg	[8]=[6]+[7] <u>\$ (2,128,377.59)</u>
Amount due to Nutmeg/Mercury from Nutmeg before Nutmeg's fees	[9]=sum of [5]-[8] <u>\$ 1,042,574.32</u>
Difference between Cash before Nutmeg's fees and actual cash (Table 1)	[10] \$ 1,058,812.37
Unreconciled difference	[11]=[9]-[10] \$ (16,238.05)
% of unreconciled difference	-1.53%

2.1 Capital contributions

Nutmeg/Mercury Fund investor capital contributions were comprised of cash contributions and rollover proceeds from other Funds. Cash contributions consisted of checks or wires remitted by investors pursuant to the subscription of partnership interest in Nutmeg/Mercury Fund. The majority of the investors of Nutmeg/Mercury Fund apparently had invested in a Fund or Funds established by Nutmeg before Nutmeg/Mercury Fund. Instead of fully distributing the realized investment proceeds from those Funds, some of the proceeds were to be rolled over into Nutmeg/Mercury Fund's investors' capital. Before May 2008, the cash of Funds managed by Nutmeg was commingled in Nutmeg's bank account and brokerage accounts. Consequently, the rollover proceeds should have been provided by Nutmeg to Nutmeg/Mercury Fund in cash.

Nutmeg/Mercury Fund's investors contributed cash totaling \$5,362,324.00. \$4,483,065.00 of this amount was deposited in Nutmeg/Mercury Fund's National City account; \$710,259.00 was deposited in Nutmeg's National City account; and the place of the deposit of the remaining \$169,000.00 has not been identified. However, on March 1 and March 14, 2007, National City account #984510707 of The Law Office of Randall Goulding received deposits totaling \$169,000.00. The National City production did not provide sufficient information to identify the source of the deposits made on March 1 and March 14, 2007 into the Law Office account. On March 9, 2007, an amount of \$160,000.00 was transferred from The Law Office account to Nutmeg's National City account.

In addition to cash contributions, Nutmeg/Mercury Fund should have received rollover proceeds totaling \$741,945.28. \$19,663.87 of this amount was transferred from Nutmeg and various Funds' bank accounts to Nutmeg/Mercury Fund's bank account in October and

November 2008. The remaining rollover proceeds of \$722,281.41 cannot be associated with specific deposits of funds from Nutmeg into Nutmeg/Mercury's bank account and this amount is part of the transactions recorded in the Due to/from Nutmeg account. It is apparent that Nutmeg did not have the funds in its bank account to contribute the rollover proceeds in cash to Nutmeg/Mercury Fund. From January to July 2007, total rollover proceeds of \$378,406.00 (included in the \$5.5 million initial contribution) should have been contributed to Nutmeg/Mercury Fund. During the same period, instead of receiving rollover contributions from Nutmeg, net cash of \$906,356.95 was transferred out of Nutmeg/Mercury's account to Nutmeg's account. And as of July 31, 2007, Nutmeg's National City bank account only had a cash balance of \$184,820.82 (after adding back the sweep debit of \$89,000.00 posted on July 31, 2007).

The third component of total capital contributions is the amount of contribution from Randall Goulding. According to the Tax Worksheets for Nutmeg/Mercury Fund and the Fund's Investor Summary Schedule provided by Nutmeg, Randall S. Goulding Trust was a Limited Partner of Nutmeg/Mercury Fund with an initial contribution of \$53,762.25. By acquiring interest in Nutmeg/Mercury Fund, Randall Goulding was required to submit his cash capital contribution to the Fund like the other limited partners and was entitled to allocation of the Fund's profits and losses in proportion to his share of partnership interest. However, the contribution cannot be identified with any specific deposit made in to Nutmeg/Mercury's bank account from Nutmeg or Randall Goulding and this amount was also recorded in the Due to/from Nutmeg account.

2.2 Payments of Investments

The table below shows the amount of investment costs stated by Nutmeg according to its Summary of Investment schedule for Nutmeg/Mercury Fund, total payments of investments for or attributed to Nutmeg/Mercury Fund which we have traced to the bank and brokerage accounts of Nutmeg/Mercury and Nutmeg, costs of investments allocated to Nutmeg/Mercury Fund (payments also traced to applicable bank accounts), and investment payments not traced to available bank statements.

Table 4 Summary of Investment Payments

	Amount
Investment Costs stated by Nutmeg*	\$ 6,778,013.85
Investments for Nutmeg/Mercury	\$ (5,685,886.94)
Allocated/Assigned Investments	\$ (1,067,471.12)
Investment Costs not traced to bank statements	<u>\$ 24,655.79</u>

*Refer to Exhibit 3 for the Summary of Investment schedule provided by Nutmeg

Of the \$24,655.79 in payments not traced to bank or brokerage statements, \$20,000.00 was a payment related to an investment in RushNet Inc. as shown in the Summery of Investment schedule. We cannot identify the payment in Nutmeg or Nutmeg/Mercury Fund's bank or brokerage statements, nor was this payment recorded in Nutmeg/Mercury Funds' General Ledger account - "Investment RSHN." Therefore, the unsupported investment costs were excluded from our analysis of Nutmeg/Mercury Fund's activity.

We traced payments totaling \$5,685,886.94 which were made for or attributed to Nutmeg/Mercury Fund. Of this amount, \$5,107,849.20 was paid from Nutmeg/Mercury Funds'

bank account, and \$578,037.74 from Nutmeg's bank and brokerage accounts. Refer to Exhibit 7 for a list of investments paid from Nutmeg's bank and brokerage accounts.

2.3 Allocated or assigned investments

Nutmeg allocated and assigned the following investments to Nutmeg/Mercury Fund to account for the amount owed by Nutmeg to Nutmeg/Mercury Fund:

Table 5 Investments allocated or assigned to Nutmeg/Mercury Fund

Investment Name	Amount Allocated or Assigned
1. Accesskey IP, Inc.	\$ 750,400.00
2. Physicians Healthcare Management Group, Inc.	\$ 157,035.00
3. Spooz, Inc.	\$ 18,200.00
3. Nutmeg/Tropical, LP	\$ 141,836.12
Total allocated or assigned investments	<u>\$ 1,067,471.12</u>

Accesskey IP, Inc.

Nutmeg's investment in Accesskey IP, Inc. originated in October 2004 with payments made to an entity named "EWAN 1 Inc." The initial payments were classified in Nutmeg's books as personal deals of Randall Goulding. The investment's name was later changed to Advanced Technetix Inc., and later Accesskey IP, Inc. According to a schedule titled "IRR" prepared by Nutmeg which lists historical payments related to investments in Accesskey IP, Inc., total funding was approximately \$3.8 million. Of this amount, we traced \$3,799,293.20 to various bank accounts of Nutmeg, Randall Goulding, Nutmeg/Mercury, and the Relief Defendants.

The payments traced include Nutmeg's fees charged to the Funds totaling \$30,435.51 and payments to various individuals and entities totaling \$105,990.36. We were not provided with

support for or the basis of the calculation of the fees charged by Nutmeg in relation to investment in Accesskey IP, Inc., nor do we have sufficient documentation to determine the nature of payments to the various individuals and entities. Nevertheless, many of these payments were made consistently to the same individuals and entities, which appeared to be commissions or fees. Based on the disclosures in Nutmeg/Mercury Fund's offering documents (pg. 14 of the January 2007 Offering, and pg. 27 of the August 2007 Offering), finder or referral fees would be paid from the General Partner's (Nutmeg) incentive fees. Total fees and commissions attributed or allocated to Nutmeg/Mercury Fund were \$77,221.93. Additional documentation is required to determine the amount of fees, if any, that should be paid from Nutmeg/Mercury Fund's assets.

In the IRR Schedule prepared by Nutmeg, payments for Accesskey investments totaling \$579,800.00 were attributed to Nutmeg/Mercury Fund. \$500,000.00 of the total payment attributed to Nutmeg/Mercury Fund was made between November 2004 and July 2006, before Nutmeg/Mercury Fund was even established. No explanations were provided by Nutmeg for the reasons why Nutmeg/Mercury Fund's investors should be responsible for paying investments made before the inception of the Fund. Nevertheless, in the "Specific Transactions Updated: August 1, 2007" attached as Exhibit B to the *August 2007 Disclosure Memorandum* (Exhibit 2), Nutmeg represented that Nutmeg/Mercury Fund invested \$500,000.00 in a convertible note, backed by 125 million free trading shares of Advanced Technetix, Inc., while there was no such note executed in the name of Nutmeg/Mercury Fund, Nutmeg, Randall Goulding, or the Relief Defendants.

From February 2007 to September 2007, payments totaling \$699,700.00 were made from Nutmeg/Mercury Fund's bank account for investments in Accesskey IP, Inc. Nutmeg
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attributed \$65,000.00 of this amount paid by Nutmeg/Mercury Fund to Nutmeg/Patriot Fund. Also in September 2007, a Convertible Note with a face amount of \$585,607.88 was executed between Nutmeg/Mercury Fund and Accesskey IP, Inc. Consequently, in our analysis schedule (Refer to Exhibit 8) we used the amount paid by Nutmeg/Mercury Fund less the amount attributed to Nutmeg/Patriot Fund ($\$634,700.00 = \$699,700.00 - \$65,000$) as the original cost of Nutmeg/Mercury Funds' investment in Accesskey IP, Inc.

In the IRR schedule and allocation schedule prepared by Nutmeg, over \$1.5 million in Accesskey investment payments were not originally attributed to the Funds or classified as Randall Goulding's personal or private deals. In April 2008, Randall Goulding performed an allocation of the costs to various Funds. As a result of the allocation, total Accesskey investment costs attributed to Nutmeg/Mercury Fund increased by \$750,400.00 to \$1,385,100.00. The total of Accesskey related payments made after January 2007 is \$903,050.00, \$699,700.00 of which was for Nutmeg/Mercury Fund and Nutmeg/Patriot Fund, leaving only \$203,350.00 for allocation. Allocating an additional amount of \$750,400.00 to Nutmeg/Mercury Fund means that Nutmeg/Mercury Fund had to absorb a substantial amount of costs incurred prior to its inception.

Two repayments in the amount of 470,000.00 and \$175,000.00 from Accesskey IP, Inc. deposited in Nutmeg's bank account were directly attributed to Nutmeg/Mercury Fund. And in addition, Nutmeg received another repayment of \$100,000.00 from Accesskey and \$39,429.90 of the additional repayment was allocated to Nutmeg/Mercury Fund.

As a result of the Accesskey allocation, Nutmeg/Mercury Fund received a Convertible Note dated May 1, 2008 with a face amount of \$964,494.40. The Note was superseded by an August
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22, 2008 Note and later by a December 23, 2008 Note with a new face amount of \$1,000,526.47.

As of March 31, 2009, the Note was valued by Nutmeg at \$1,667,554, while the preliminary valuation performed by Crowe resulted in a value of 65% less at \$583,639.

The manner in which investments in Accesskey IP Inc. were structured and paid has made it difficult, if impossible, to assess the fairness of allocation performed by Randall Goulding.

Historically, the Accesskey investment contracts were entered in the name of Nutmeg and the Relief Defendants (refer to **Exhibit 9** for a list of the historical contracts); and payments were made from various bank accounts in the name of Nutmeg, Randall Goulding, the Relief Defendants, and Nutmeg/Mercury. Although the total amount of the Note, stock purchase and repurchase agreements appears to agree to the total payment amount presented in the IRR schedule, the face amount of the Note or amounts paid for stock purchases cannot be directly associated with specific amounts paid and subsequently attributed to the Funds. For example, payments made by Nutmeg and Financial Alchemy could result in a Note in the name of Philly Financial, and part of the payments was attributed to Nutmeg/October Fund. This makes the allocation based on share entitlement per original agreements difficult to determine. In addition, the methods of attributing shares received and sold for the benefit of a specific Fund were not explained or supported. For example, Nutmeg attributed \$500,000.00 of the payments to Accesskey made between 2004 and 2006 to Nutmeg/Mercury Fund, but none of the 86 million Accesskey shares sold or held in multiple brokerage accounts were allocated to Nutmeg/Mercury Fund.

In **Exhibit 8**, we presented the original costs of Accesskey Investment attributed to Randall Goulding or private deals and the Funds, the amount of costs allocated, and the total costs after allocation. The total costs for each Fund agreed to the costs reflected on the Investment

Summary schedule prepared by Nutmeg for each Fund. Exhibit 8 also shows the amount of realized proceeds and repayments attributed to the Funds. Disregarding the value of the Notes executed in the name of the Funds subsequent to the allocation, the percentage of costs recovered by Randall Goulding personal or private deals and the Funds ranged from 0% to 128%. Nutmeg/Mercury Fund recovered approximately 42% of the total cost of \$1,385,100.00. The profitability of the investment depends on the value of the Note. Although the face amount of the Note is over \$1 million, its value as determined by our preliminary valuation as of March 31, 2009 is \$583,639. Based on Crowe's valuation, Nutmeg/Mercury Fund would have shown a loss of \$217,031 from Accesskey investment as of March 31, 2009.

Physicians Healthcare Management Group, Inc.

Nutmeg began its investment in Physicians Healthcare Management Group, Inc. (PhyHealth) in February 2005. According to Nutmeg's IRR schedule which lists payments made related to the PhyHealth investment, a total amount of \$1,735,386.00 was made between February 2005 and November 2007. Nutmeg's IRR schedule did not reflect Nutmeg's fees totaling \$15,446.89 charged to Nutmeg Mini Fund II, Nutmeg/Lightning Fund, and Nutmeg/October Fund. These fees were recorded in these Funds' investment account in Nutmeg's General Ledger as cost of investment in PhyHealth. Nor did Nutmeg's IRR schedule reflect additional payments totaling \$171,035.00 paid by Nutmeg/Mercury from August to November 2008. When these payments are added, the total amount of PhyHealth investment cost paid by Nutmeg, Nutmeg/Mercury and the Relief Defendants equals \$1,921,867.89.

In Exhibit 10, we provide a summary of investment payments to PhyHealth. The schedule reflects the original costs of investment attributed by Nutmeg to the Funds and the amount of costs stated by Nutmeg in the Investment Summary schedule for the Funds. The difference

between the two amounts is the costs allocated to the Funds. According to the IRR schedule prepared by Nutmeg, payments from January to November 2007 totaling \$424,500.00 were originally attributed to Nutmeg/Mercury Fund. Of this amount, \$367,000.00 was paid from Nutmeg/Mercury Fund's bank account, and \$57,500.00 paid by Nutmeg. The total cost of the PhyHealth investment reflected in the Investment Summary for Nutmeg/Mercury Fund is \$581,535.00. Additional costs of \$157,035.00 were allocated to Nutmeg/Mercury Fund. For reasons provided in the discussion of investment in Accesskey IP, Inc., it is difficult to assess the reasonableness of the allocation performed by Nutmeg.

The sale of PhyHealth shares generated net proceeds of \$72,916.77, none of which were attributed to Nutmeg/Mercury Fund. Nutmeg/Mercury Fund received \$100,000.00 in loan repayment from PhyHealth over a total cost of \$581,535.00. Subsequent to the reallocation of PhyHealth costs, Nutmeg executed a Make Up Agreement dated September 30, 2008. As a result of the Make Up Agreement, 4,085,886 of PhyHealth preferred shares were issued to Nutmeg/Mercury Fund. Nutmeg valued the preferred shares at \$531,165.18 as of March 31, 2009; whereas Crowe's preliminary valuation reflects a value of \$302,355, 43% less than the value determined by Nutmeg. Based on Crowe's valuation, Nutmeg/Mercury Fund would have shown a loss of \$179,180 from PhyHealth investment as of March 31, 2009.

Spooz, Inc.

Randall Goulding funded two payments to Spooz, Inc. from his personal account at National City bank, one payment on August 1, 2008 for \$13,200.00 and the other on August 25, 2008 for \$5,000.00. Although investment contract(s) supporting the payments were not provided to us, based on our inquiry of Randall Goulding, these payments were his personal investment in the Spooz, Inc.

On October 27, 2008, a Convertible Note with a face amount of \$58,250.00 was executed between Nutmeg/Mercury Fund and Spooz, Inc., with a maturity date of October 31, 2010. Principal and interest (10% per year, compounding monthly) are payable at maturity. According to an Agreement dated October 31, 2008 between Nutmeg/Mercury Fund and Spooz, Inc., the amounts funded by Randall Goulding in August 2008 were loans and they were in default. The October 27, 2008 Convertible Note was to compensate Nutmeg/Mercury for the delay in the receipt of 8.5 million shares from Spooz, Inc. as well as the amount purportedly loaned by Randall Goulding, but later defaulted (according to the Agreement). With the October 27, 2008 Note, Randall Goulding effectively assigned the defaulted loans to Nutmeg/Mercury Fund. The Note was valued by Nutmeg at \$64,139.33 as of March 31, 2009.

Nutmeg/Tropical, LP

On December 31, 2008, a journal entry was recorded in Nutmeg/Mercury Fund's General Ledger (a/c - Investment - VCII) to reflect an assignment of Randall Goulding's interest in Nutmeg/Tropical, LP in the amount of \$141,836.12 to Nutmeg/Mercury Fund. Randall Goulding discussed this assignment in the *Sales Proceeds/Investment Accounting Memorandum* dated May 1, 2009 (pg. 4). Refer to Exhibit 14. Randall Goulding stated in the Memorandum that, as of September 30, 2008, Nutmeg's due to Mercury balance was \$160,036.12. \$18,200 of this amount was made up by assignment of Randall Goulding's investment in Spooz, Inc. The assignment of Randall Goulding's interest in Nutmeg/ Tropical, LP was to fulfill the remaining balance of \$141,836.12. According to the Memorandum, upon liquidation of Nutmeg/Tropical Fund, Nutmeg/Mercury Fund would receive shares in Vivicells International Inc. and each of its two subsidiaries.

Nutmeg/Tropical, LP is a Fund established by Nutmeg in October 2004 with total investments of \$1 million solely in the common stocks (and warrants) of Tropical Beverage, Inc. From 2004 to 2006, the investment of Nutmeg/Tropical Fund generated distributable proceeds from stock sales totaling \$252,701.48. Since 2007, Nutmeg/Tropical Fund has had minimum activity. The costs recorded in Nutmeg's General Ledger - Nutmeg/Tropical account in 2007 appeared to be for payment of third-party legal costs. Tropical Beverage, Inc. subsequently filed for bankruptcy and later merged into Vivicells International Inc. On behalf of Nutmeg, Randall Goulding filed claims against Vivicells International, Inc. in March 2006 in the US Bankruptcy Court, seeking loss recovery of \$2,558,035.30. Refer to **Exhibit 15** for a copy of the claims. \$212,862.96 of this amount was for legal fees owed to the Law Office of Randall S. Goulding. According to the Nutmeg/Tropical Funds' 2008 Tax Worksheet provided by Nutmeg, in 2008, Randall Goulding contributed the legal bills of \$212,862.96 to Nutmeg/Tropical Fund and then assigned his interest (\$320,093.59) in Nutmeg/Tropical Fund to Nutmeg/Mercury Fund (\$141,836.12), Nutmeg/Fortuna Fund (\$59,982.76), and The Justice Fund (\$118,274.71). Refer to **Exhibit 16**. As of March 31, 2009, the Nutmeg/Tropical interest assigned by Randall Goulding to Nutmeg/Mercury Fund was valued by Nutmeg at \$191,737.59 and the valuation was performed based on the amount of the claim.

2.4 Investment sales proceeds and loan repayments

We identified and traced sales proceeds and loan repayments from Nutmeg/Mercury Fund's investments totaling \$3,572,944.31. This amount approximates the amount of realized proceeds stated in Nutmeg's Investment Summary for Nutmeg/Mercury Fund (Refer to **Exhibit 3**). \$2,461,524.77 of the total sales proceeds were realized from sales in Nutmeg/Mercury Fund's brokerage accounts; \$383,874.65 in proceeds was generated in brokerage accounts of Nutmeg and Financial Alchemy LLC; and \$727,544.89 was generated from repayments from portfolio

companies. Exhibit 12 provides a list of investment sales traced to the brokerage accounts of Nutmeg and Financial Alchemy LLC.

2.5 Investor cash distributions

Cash distributions totaling \$1,906,006.74 were made to Nutmeg/Mercury Fund investors. \$1,253,833.18 was paid from Nutmeg/Mercury's bank account; and \$652,173.56 was paid by Nutmeg. Refer to Exhibit 13B for a listing of distributions made to Nutmeg/Mercury Fund investors.

2.6 Nutmeg's fees

Nutmeg/Mercury Fund's January 2007 offering memorandum provides for a one-time 4% management fee charged on the total amount of funds raised. The 4% fee is to compensate for organization, accounting, and other administrative types of fees. The carried interest (incentive fees in addition to the management fees) to the General Partner as disclosed in the January 2007 offering was 25% for existing investors and 30% for new investors.

In terms of allocation of the partnership profits and losses, Section 7.02 (i)(C) of the Partnership Agreement of Nutmeg/Mercury Funds states that the cash flow and profits shall be allocated 100% to the Limited Partners until their entire investments have been returned, and thereafter, 75% to the Limited Partners, and 25% to the General Partner; in the case of new investors, the allocation would be 70% to the Limited Partners, and 30% to the General Partner. In addition, a "claw back" provision is included in Section 7.02 (iv) of the Partnership Agreement. According to the "claw back" provision, if the General Partner received distribution in excess of its allocable share of net profit, the excess amount would be returned to the Partnership for distribution to the Limited Partners. Nutmeg's fee structure in the January 2007 offering is

similar to those for the Funds established before Nutmeg/Mercury Fund in which the General Partner's incentive fees were in the form of participation in the profits realized from the Fund's investments.

In August 2007, Nutmeg sought conversion of Mercury Fund into a perpetual fund where investment sales proceeds can be reinvested into the Fund. In the *August 2, 2007 Amendment Letter*, Nutmeg states that when the Fund is transformed into a perpetual fund, there will be no one time 4% charge on the funds raised in addition to the \$5.5 million initial contribution. Instead, there will be a 2.5% annual management fee payable monthly based on end of period net asset value. According to Section 3.8(a) of the *Amended and Restated Operating Agreement* (dated August 2, 2007, Exhibit A to the *August 2007 Disclosure Memorandum*), the 2.5% annual management fee is to compensate the General Partner for services only (and therefore does not cover accounting and other administrative type of fees).

Section 3.8 (b) further states that in addition to the management fees, the General Partner is to receive 25% of the Capital Appreciation of the Fund which shall be calculated and paid quarterly. Based on definition provided in Section 1.5, Capital Appreciation includes realized income, gain or loss from investment sales and unrealized gain or loss from increase or decrease in investment value determined by Nutmeg. The *August 2007 Disclosure Memorandum* also removes the claw back provision by stating that in no event will reallocations for previous fiscal periods be reimbursed if subsequent net losses occur. However, prior to the General Partner receiving a special incentive allocation, any net losses in previous fiscal periods must be recovered through subsequent net profits.

Section 6.4 – *Allocation of Net Profit and Loss* - of the *Amended and Restated Operating Agreement* dated August 2, 2007 provides that net profit and loss of the Fund shall be allocated to and among all Limited Partners in accordance with their proportionate interest determined as of the last day of each fiscal year. In Section 6.8 – *Special Incentive Allocation*, it is stated that after the allocations to Limited Partners, if net profits exist in the Limited Partners account, then the “allocable net profits” will be reallocated at the end of each quarter 25% to the General Partner and 75% to the Limited Partners. Section 6.8 refers to Section 1.28 for the definition of “allocable net profit.” However, such definition is not located in the *Amended and Restated Operating Agreement*. It is unclear whether “allocable net profit” carries the same definition as the Fund’s Capital Appreciation.

The terms for General Partner’s management fees and special incentive in the August Offering differ significantly from the January Offering and those contained in the partnership agreements of the previous Funds. While previously the fees were determined based on factual information (management fees as a percentage of the total amount of capital raised and incentive fees calculated based on realized profits), the fee structure in the August Offering depended to a large extent on rather subjective factors (valuation of the Fund’s assets performed by Nutmeg).

According to Randall Goulding, Nutmeg received sufficient votes from investors (50% or more) to convert Nutmeg/Mercury Fund to a perpetual Fund which would allow Nutmeg’s management fees and incentives fees to be calculated based on the terms in the August Offering. Although we requested from Randall Goulding the applicable documentation to support investors’ approval, we have not been provided the support.

2.6.1 Nutmeg's calculations – Management Fees

From January 2007 to March 2009, based on the postings in Mercury Fund's General Ledger, a total of \$369,001.71 was charged by Nutmeg as management fees. Nutmeg/Mercury Fund's General Ledger recorded fees for the period ended July 31, 2007, and then each quarter thereafter. It appears that the management fees for the first seven months were calculated by applying the 2.5% rate to the initial investment limit of \$5.5 million and the subsequent fees were calculated by multiplying quarter end Gross Asset Value (GAV) by 2.5%, rather than Net Asset Value (NAV) as provided in the August Offering.

To validate that management fees charged by Nutmeg were determined based on Nutmeg's valuation of Nutmeg/Mercury Fund Fund's assets, we calculated management fees as of July 31, 2007 based on the initial capital contribution and the subsequent quarter end's GAV (value determined by Nutmeg), and compared the recalculated fees with the amount recorded in Mercury Fund's general ledger. As shown in Table 6.1, the difference between our recalculated amount and the amount of fees recorded is \$457. If fee calculations for the quarters ended September 30, 2007 to March 31, 2009 were performed based on NAV as determined by Nutmeg, total management fees would be \$342,329.38, lower than the amount of fees calculated based on GAV by \$26,672.32. Refer to Table 6.2.

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Table 6.1 Nutmeg's Calculation of Management Fees

<i>Management Fee Rate</i>	2.50%			
Date	Basis Amount	Amount of		Difference
		Calculated Fees	Fees Recorded by Nutmeg	
7/31/2007 Initial capital	\$ 5,500,000.00	\$ 80,208.33	\$ 80,208.33	\$ -
9/30/2007 GAV	\$ 7,659,643.60	\$ 31,915.18	\$ 31,915.18	\$ -
12/31/2007 GAV	\$ 7,482,241.49	\$ 46,764.01	\$ 46,764.01	\$ -
3/31/2008 GAV	\$ 8,748,072.51	\$ 54,675.45	\$ 54,675.45	\$ -
6/30/2008 GAV	\$ 7,269,539.99	\$ 45,434.62	\$ 45,434.62	\$ -
9/30/2008 GAV	\$ 5,888,176.45	\$ 36,801.10	\$ 36,801.10	\$ -
12/31/2008 GAV	\$ 6,271,652.33	\$ 39,197.83	\$ 39,444.33	\$ 246.50
3/31/2009 GAV	\$ 5,367,631.47	\$ 33,547.70	\$ 33,758.67	\$ 210.97
Total fees		\$ 368,544.23	\$ 369,001.71	\$ 457.48

Note: The Gross Asset Value (GAV) data are from a spreadsheet named "MERCURY FUND - Janaury 2009 - recal" provided by Nutmeg. This spreadsheet was used by Nutmeg to calculate Nutmeg's carried interest from Nutmeg/Mercury Fund.

Table 6.2 Management fees calculated based on NAV

<i>Management Fee Rate</i>	2.50%			
Date	Basis Amount	Amount of		Difference
		Calculated Fees	Fees Recorded by Nutmeg	
7/31/2007 Initial capital	\$ 5,500,000.00	\$ 80,208.33	\$ 80,208.33	\$ -
9/30/2007 NAV	\$ 6,656,924.78	\$ 27,737.19	\$ 31,915.18	\$ 4,178.00
12/31/2007 NAV	\$ 6,623,104.59	\$ 41,394.40	\$ 46,764.01	\$ 5,369.61
3/31/2008 NAV	\$ 7,577,042.43	\$ 47,356.52	\$ 54,675.45	\$ 7,318.94
6/30/2008 NAV	\$ 6,546,232.54	\$ 40,913.95	\$ 45,434.62	\$ 4,520.67
9/30/2008 NAV	\$ 5,557,701.61	\$ 34,735.64	\$ 36,801.10	\$ 2,065.47
12/31/2008 NAV	\$ 5,830,940.98	\$ 36,443.38	\$ 39,444.33	\$ 3,000.95
3/31/2009 NAV	\$ 5,366,395.69	\$ 33,539.97	\$ 33,758.67	\$ 218.70
Total fees		\$ 342,329.38	\$ 369,001.71	\$ 26,672.32

Note: The Gross Asset Value (NAV) data are from a spreadsheet named "MERCURY FUND - Janaury 2009 - recal" provided by Nutmeg.

2.6.2 Nutmeg's calculations – Carried Interest

Nutmeg calculated accrued carried interest for periods ended July 31, 2007 and each quarter thereafter up to March 31, 2009. The accrued carried interest is calculated based on the change in Gross Asset Value (ending GAV less beginning GAV) multiplied by the carried interest percentages for each investor. For each period, Nutmeg calculated and recorded realized carried interests (i.e. payable to Nutmeg) based on disbursements (distributions and redemptions) to the investors. The unrealized portion of the accrued carried interests were carried forward to the next period until December 31, 2008 when the entire unrealized portion was recognized by a one time recording of carried interest due to Nutmeg in the amount of \$439,270.97. The total amount of carried interest recognized by Nutmeg was \$743,031.42.

It is unclear which set of rules Nutmeg followed in calculating carried interest. Based on the January Offering, the reallocation of profits (25% to GP and 75% to LP) shall be performed after the initial investments are returned to the limited partners. Nutmeg's method of calculation did not follow that rule. Based on the August Offering, a 25% carried interest on net profit applies to all investors. However, Nutmeg used different percentages for existing investors (25%) and new investors (30%). The carried interest calculated by Nutmeg is largely dependent on Nutmeg's valuation of assets as of July 31, 2007 which was shown as \$8.4 million (GAV) in the spreadsheet used by Nutmeg for carried interest calculation, a more than 50% increase from the \$5.5 million in investor initial contributions up to July 2007. Despite the substantial increase in the Fund's asset value used in the carried interest calculation, an adjustment to fair market value as of July 31, 2007 for each Nutmeg/Mercury Fund's investments was not recorded in Nutmeg/Mercury Fund's General Ledger investment accounts. When we requested the support for the July 31, 2007 asset valuation by investment, David Goulding responded that he was unable to provide us with the valuation support.

2.6.3 Reasonableness of fees charged by Nutmeg

To evaluate the reasonableness of management fees and incentive fees charged by Nutmeg to Nutmeg/Mercury Fund, we must first determine the reasonableness of the valuation performed by Nutmeg for Nutmeg/Mercury Fund's assets. We valued seven of Nutmeg/Mercury Fund's investments whose value (as determined by Nutmeg) represented approximately 66% of the Nutmeg/Mercury Fund's asset value as of March 31, 2009. Based on Crowe's preliminary valuation, Nutmeg significantly over-valued these investments. In Table 7.1 below, our analysis shows investment values ranging from 22% to 100% less than the value represented by Nutmeg, with a weighted average of 59% in negative variance. In other words, Nutmeg overvalued these investments by 59%. On a weighted basis, the most significantly over-valued investment is Accesskey IP, Inc. which contributed 30 per cent points to the 59% over-valuation, followed by Hot Web, Inc. (12 per cent points) and Physicians Healthcare Management Inc. (6 per cent points).

When the variance of 59% is extrapolated to the remaining 44% of Nutmeg/Mercury Fund's asset value, the estimated value of the other investments is lowered significantly. The estimated value of Nutmeg/Mercury Fund's assets (based on our valuation of 66% of the investments, and extrapolation of 59% discount to the other investments) is calculated as \$2,103,267, about \$3.3 million less than the value determined by Nutmeg.

Our analysis indicates that the valuations performed by Nutmeg over-valued the Fund's assets and therefore are not reliable. In Table 7.2 below, we calculated Nutmeg/Mercury Fund's net loss as of March 31, 2009, by totaling realized proceeds from sold or repaid investments and estimated value of remaining investments and comparing the total amount with the total investment costs. The calculation shows that Nutmeg/Mercury Fund suffered a net loss of

\$918,841. From July 2007 to March 2009, Nutmeg charged incentive fees of \$743,031 to Nutmeg/Mercury Fund. Charging such fees would have increased Nutmeg/Mercury Fund's net loss to over \$1.6 million by March 31, 2009.

The market conditions and specific factors affecting the portfolio companies of Nutmeg/Mercury Fund indicate that the value of the Fund's assets may have further declined since March 2009. Nutmeg/Mercury Fund's investors contributed over \$6.1 million and received approximately \$1.9 million of distributions in return, only 31% of their investments. The likelihood of returning the remaining \$4.2 million of investors' capital contribution appears remote. Payment of incentive fees to Nutmeg would further increase the losses to the investors.

Table 7.1 Comparison of Valuation – Nutmeg's and Crowe's Results

	Nutmeg	% Weight	Crowe	Variance	Weighted Variance
1 Accesskey IP, Inc.	\$ 1,667,544	47%	\$ 583,639	-65%	-30%
2 Physicians Healthcare Management Group, Inc.	\$ 531,165	15%	\$ 302,355	-43%	-6%
3 Hot Web Inc.	\$ 533,749	15%	\$ 102,644	-81%	-12%
4. ICC Worldwide, Inc.	\$ 80,598	2%	\$ 20,149	-75%	-2%
5 Niveous Holdings Company	\$ 494,836	14%	\$ 387,869	-22%	-3%
6 Nustate Energy Holdings Inc.	\$ 202,219	6%	\$ 50,554	-75%	-4%
7 QPC Lasers, Inc.	\$ 47,355	1%	\$ -	-100%	-1%
Subtotal	\$ 3,557,466		\$ 1,447,210	-66%	-59%

Total investment value stated by Nutmeg -
3/31/2009 \$ 5,413,483
% if investment value assessed by Crowe 66%

If the 59% negative variance is extrapolated to the other investments of Nutmeg/Mercury Fund as of March 31, 2009:

Table 7.2 Application of 59% Discount

Other investments	\$ 1,600,140	
Weighted average variance	-59 %	
Apply discount of 59% to Nutmeg's valuation of other investments	\$ (944,082)	
Estimated value of other investments	<u>\$ 656,057</u>	
Add: Crowe value for Investment no. 1-7	\$ 1,447,210	
Estimated value of Nutmeg/Mercury Fund investments as of 3/31/2009	<u>\$ 2,103,267</u>	
Total proceeds realized	\$ 3,572,944	
Estimated value of Nutmeg/Mercury Fund investment as of 3/31/2009	<u>\$ 2,103,267</u>	
Total cost of investments	\$ 6,595,052	Note 1
Estimated loss of Nutmeg/Mercury Fund investment as of 3/31/2009	<u>\$ (918,841)</u>	

Note 1 -

The total value and cost of investments used in this calculation excludes the investment costs totaling \$160,036.12 assigned by Randall Goulding to Nutmeg/Mercury Fund. These investments were valued by Nutmeg at \$255,877 as of 3/31/2009.

	Nutmeg	
	Cost	Value
1) Spooz, Inc.	\$ 18,200.00	\$ 64,139
2) Nutmeg/Tropical, LP	\$ 141,836.12	\$ 191,738
Total assigned investments	<u>\$ 160,036.12</u>	<u>\$ 255,877</u>

2.6.4 Recalculation of management fees

To remove uncertainties associated with the valuation of the Fund's assets performed by Nutmeg, we considered two methods of calculating management fees based on available factual information. Method 1 illustrated in Table 8 below calculates the management fees based on the terms in the January Offering by applying 4% to the total amount of capital contributions of Nutmeg/Mercury Fund. In Method 2, we applied 4% one time fees to the initial \$5.5 million capital contributions for the first layer of fees; and for management fees for the subsequent

periods, instead of using NAV which requires valuation of quarter-end asset value of the Fund, we applied 2.5% annual fees (as provided in the August Offering) to the subsequent additional contributions of \$658,031.41 (prorated by 20 months from August 2007 to March 2009). Under Method 2, we calculated the amount of management fees to be \$247,417.98, about \$1,000 higher than the fees calculated under Method 1, but about \$120,000 lower than the management fees calculated by Nutmeg. In this Report, we used the management fees calculated under Method 1 to determine the amount due from Nutmeg to Nutmeg/Mercury Fund.

Table 8 Recalculation of Management Fees

	Total Contributions	fee %	Calculated Management Fees
Method 1	\$ 6,158,031.41	4%	\$ 246,321.26
Method 2	\$ 5,500,000.00	4%	\$ 220,000.00
	\$ 658,031.41	2.5%	\$ 27,417.98
			<u>\$ 247,417.98</u>
Difference between Method 1 and 2			\$ (1,096.72)

3. Amount Due from Nutmeg to Nutmeg/Mercury Fund

Table 1 – *Summary of Nutmeg/Mercury Fund Activity* shows that Nutmeg/Mercury Fund's cash before payment of Nutmeg's fees should have been \$1,058,805.64. In Table 9, we subtracted the recalculated management fees from the balance and added back the investment costs totaling \$160,036.12 assigned by Randall Goulding to Nutmeg/Mercury Fund. There is no evidence to support that these investments were made for Nutmeg/Mercury Fund and therefore the Fund investors should not be responsible for paying them. The values of these investments are substantially less than the costs assigned. It is also our understanding that Nutmeg/Mercury Fund's investors are unlikely to recover from the costs assigned.

Based on the calculation in Table 9, Nutmeg owes \$972,520.50 to Nutmeg/Mercury Fund. After Randall Goulding's share of distributable proceeds is subtracted from the due from Nutmeg balance, the amount due to other Nutmeg/Mercury Fund investors is \$940,340.06.

Table 9 Amount due from Nutmeg to Nutmeg/Mercury

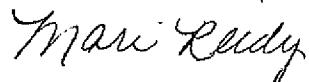
	Amount
Nutmeg/Mercury's cash before Nutmeg's fees	\$ 1,058,805.64
Less: Nutmeg's management fees (Table 8)	\$ (246,321.26)
Add: Investment assigned by Randall Goulding to Nutmeg/Mercury Fund	\$ 160,036.12
Amount due from Nutmeg to Nutmeg/Mercury Fund	<u>\$ 972,520.50</u>
Randall Goulding's allocable share of proceeds	\$ 32,180.44 Note 1
Amount due to other Nutmeg/Mercury Fund investors	<u>\$ 940,340.06</u>
 Note 1 -	
Total realized proceeds	\$ 3,572,944.31
Randall Goulding's 2007 and 2008 average % interest	0.0090
Randall Goulding's allocable share of proceeds	<u>\$ 32,180.44</u>

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F. Other Matters

This report reflects events and circumstances as they currently exist based upon the information received and the procedures we have performed through the date of this report. Should additional information become available to us, we reserve the right to update our report accordingly. The procedures we performed do not constitute an audit, review, or compilation of financial statements in accordance with generally accepted auditing standards. None of the contents of this report are intended to provide legal advice. We appreciate the opportunity to serve you in this matter. If you have any questions relating to any matter presented herein, please do not hesitate to contact me.

Sincerely,



Mari Reidy

Partner

Crowe Horwath LLP